

City of Albuquerque

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Martin J. Chavez, Mayor

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Internal Audit Committee City of Albuquerque Albuquerque, New Mexico

Audit: Rinchem Company, Inc.

Contract with Rinchem Company, Inc.

01-124

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) reviewed the City's two contracts with Rinchem Company, Inc. (Vendor). One contract provides a household hazardous waste collection center (collection center) along with a materials re-use center for residents of the City of Albuquerque and Bernalillo County. Neither the City's Solid Waste Convenience Centers, nor the Residential Pick-up Program, accept household hazardous waste. When citizens of Bernalillo County wish to dispose of household hazardous waste, they must take it to Rinchem. Bernalillo County citizens are asked to complete a "Collections Customer Entry" form prior to dropping off household hazardous waste. The data is collected, consolidated and submitted to the City's Environmental Health Department (EHD) to support the monthly billing.

The amount of the vendor contract for household hazardous waste is \$2.1 million for the six-year period from July 1997 through June 2003. Revenue from the Solid Waste Management Department (SWMD) residential refuse accounts provides the funding for this contract. A portion of each monthly refuse account (\$.25 per account) funds the contract. The County of Bernalillo funds a portion of the program. The City had a previous contract with the Vendor from July 1991 through June 1996.

Some surrounding local governments have their own household hazardous waste disposal programs for their residents. These programs have been developed, in an effort to avoid polluting the environment. Statistics released by the Environmental Protection Agency (EPA) revealed that

Americans as a nation generate 1.6 million tons of household hazardous waste per year. If the waste is disposed of improperly, water sources and wastewater treatment plants can become contaminated. These are only a couple of the catastrophic scenarios that are possible when hazardous waste is improperly disposed.

Examples of hazardous products that are collected at the City of Albuquerque's collection site, as well as other collection sites around the country, are automotive materials (gasoline, motor oil, antifreeze, car wax, lead-acid batteries); home improvement materials (paint, varnish, paint thinner); pesticides (weed killer, rat poison, insecticide); and household cleaners (drain opener, oven cleaner, ammonia). Some of the above items are redistributed at the City re-use center, if the products have complete labels and the containers are at least half full.

The other contract with the Vendor, the Hazardous Waste Management & Emergency Response contract (HWM&ER) provides hazardous waste management for waste generated by the various City departments, and emergency response services for hazardous waste abandoned in City easements and right-of-ways. This contract for an estimated \$55,000 per year runs from February 2000 through February 2002, and may be extended for up to four additional 12-month periods.

This audit and its conclusions are based on information provided through interviews, tests and reviews of current procedures. We completed our fieldwork on June 30, 2002. We have based this report on our examination of activities through the completion date of our fieldwork, and it does not reflect events after that date. The audit was conducted in accordance with Government Auditing Standards, except Standard 3.33, which requires an external quality review.

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the City's contract with the Vendor. Our audit testwork was limited to the following areas:

- Verify that costs charged to the City are in compliance with established contract price agreements.
- Review Vendor records as they relate to services provided to the City.
- Determine if overcharges have occurred and consider corrective action.
- Review compliance with applicable rules, regulations, and laws.

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FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. <u>THE VENDOR SHOULD CHARGE THE CITY ONLY FOR QUALIFIED PARTICIPANTS.</u>

The contract between the City of Albuquerque and the Vendor states that the collection center shall be available to residents of the City of Albuquerque and Bernalillo County, in order that they may properly dispose of their household hazardous waste. The Vendor charges the City \$70 per participant for household hazardous waste drop off.

Although the Vendor stated that it only accepts household hazardous waste from Albuquerque and Bernalillo County residents, there were some participants who had provided non-qualified addresses--addresses outside of Bernalillo County. For the month of December 2001, we were able to identify four participants who were not Bernalillo County residents. This was 1.53% of December's total participants. The month of December is a slow month. Thus the percentage is a conservative rate. The total payments to the vendor over the term of the contract were \$1,665,570. The non-qualifying percentage rate of 1.53% translates to an overcharge of \$24,984 over the term of the contract.

We noted that the Vendor's collection procedures direct the staff entering participant data to change non-qualifying zip codes to zip codes that qualify for City program participation. The procedures provide a list of allowable zip codes for entry to the participant data bank. In discussing non-qualifying participant issues, the Vendor stated that he did not want to risk improper disposal by the non-qualified citizens. The Vendor stated that citizens who are turned away sometimes dispose of the household hazardous waste outside the Vendor's property, on other City easements or in the City landfills. If the City is called to pick up such household hazardous waste, the Vendor is called and is paid through the "Emergency Response" contract at a higher fee than the \$70 participant fee.

A list of participants, which is generated from the Vendor's data bank, is sent to the City prior to sending the invoice for participant billing. The list provides support for the \$70 fee per participant. The City is over paying, and has over-paid during the term of the contract, if it has been billed for participants that are non-Bernalillo County residents. If accurate zip codes were entered and tracked by the vendor, the City might be able to negotiate agreements with surrounding jurisdictions on waste disposal issues.

RECOMMENDATION

The Vendor should ensure that its staff is aware of and accepts household hazardous waste only from Bernalillo residents. In order to be in compliance with the contract, when the Vendor inadvertently accepts waste from non-qualified participants, it should not charge the City. The Vendor should refund the City \$24,984 of estimated overpayments for non-qualifying participants. Alternatively, the vendor can determine the actual amount of overpayments, and refund that amount to the City.

EXECUTIVE RESPONSE FROM THE VENDOR

"Rinchem could not find a specific restriction in the contract statement of work excluding waste acceptance from non-residents. We are requesting written instructions from the COA Environmental Health Department to define a qualified participant. Additionally, Rinchem is requesting instructions on how we should handle any non-qualifying participants and their waste. Rinchem is concerned about the environmental consequences of rejecting these customers after they have loaded their wastes and traveled to the collection center.

"Our records indicate that the number of non-qualified participants using the program during CY2001 was 35 out of 4538 or .75% of the total.

"Rinchem has developed a procedure that will direct our staff to check the residency of the participant to ensure that it is acceptable prior to offloading HHW from the participant. We are also stressing that the customer service representative or technician must ask the participant to fill out the sign-up form completely before being allowed to participate in the program. This would identify potential non-qualifiers prior to the waste being accepted at the collection center."

AUDITOR'S COMMENT

OIA will review the Vendor's method to calculate the error rate. OIA will ensure that it is in agreement with the Vendor before it recalculates the amount of overpayments to be refunded.

2. <u>THE VENDOR SHOULD NOT PRE- BILL THE CITY FOR SERVICES NOT YET PROVIDED.</u>

The collection center contract states that the City will pay the Vendor up to \$350,000 each year for participants utilizing the household hazardous waste contract. For the last four out of the five years that the contract has been in effect, the Vendor has overcharged the City by inflating the numbers of participants in the program in the final month of the fiscal year. EHD attempts to expend rather than lose the appropriated funds. The City paid for services, which it did not receive and June's expenses were over-stated in FYs-01, 00, 99 and 98. The over statements were \$59,990, \$11,480, \$3,150 and \$2,210 respectively.

In those 4 years, credits were carried forward to the following fiscal years, and were ultimately used by the City. Section 30.3.2(a) of the City's Purchasing Rules and Regulations states: "No payment shall be authorized for goods, services or construction which: (a) are not received...." Further, the contract with the Vendor states that payments shall be made to the contractor monthly, and on the condition that the contractor has accomplished the services. Advance payment for services is a violation of both the contract and City rules and regulations. The Vendor should charge the City only for goods and services, which it has provided.

RECOMMENDATION

The Vendor should discontinue the practice of advance billing. The Vendor should comply with the contract terms and City rules and regulations, and bill the City only for the goods and services, which it has provided.

EXECUTIVE RESPONSE FROM THE VENDOR

"Rinchem will no longer pre-bill the City of Albuquerque (COA) for anticipated number of participants as requested by the COA Environmental Health Department. Our monthly invoice will reflect the actual number of days and participants involved in that month. Rinchem has asked, and still needs to know for the future, the person(s) within COA that have the authority to amend contract terms."

3. THE VENDOR SHOULD COMPLY WITH BILLING TERMS IN THE CONTRACTS.

The collection center contract states that the participant fee for the first 4,000 participants in a year shall be \$70. The participant fee shall be \$45 each after the first 4,000. In FY01, there

were 4,194 participants in the program. The Vendor billed the City \$70 per participant. 194 of the participants should have been billed at the \$45 fee. This resulted in \$4,850 in overcharges, which the Vendor has credited towards participant charges in FY-02.

We also reviewed a small sample of invoices for services performed through the hazardous waste and emergency response contract. Several invoices included services and charges that were not specifically addressed by the contract. Therefore, we were unable to determine if the services and items are allowable and are being billed in accordance with the contract terms. It would appear that the user departments would also be unable to determine if the charges are in compliance with contract terms.

The Vender should comply with the pricing and invoicing terms in the contract. It should ensure that all invoices submitted for payment contain adequate detail, thereby allowing user departments to determine the accuracy of the pricing.

RECOMMENDATION

The Vendor should comply with the contract billing terms. The Vendor should charge prices according to the agreement. Additionally, the Vendor should provide adequate detail in the invoices, which it submits for payment.

EXECUTIVE RESPONSE FROM THE VENDOR

"Rinchem will comply with the contract's billing terms. We believe that the auditor referenced a supplemental agreement for FY 2002 and had questions on its effective date. Rinchem will request that all future agreements have an agreed upon specific start date and ending date in the scope of work."

4. THE VENDOR SHOULD REQUIRE COMPLETED FORMS FROM PARTICIPANTS.

Participants are given a form to fill out before their household hazardous waste items are accepted for disposal. The form provides information on each participant, and is the basis for the household hazardous waste bill sent to the City. The vendor generates a monthly list by entering all the information from the participants' forms. The participant list is sent to the City to support the monthly invoice. We reviewed the forms for a sample month for completeness, and compared the information on the forms to the information on the

participant list. There were 58 (25%) incomplete forms out of 262 participants for the month of December 2001. Missing information included addresses, zip codes, and license numbers.

The Vendor stated that the participants are sometimes reluctant, for various reasons, to provide the information requested on the form. The incomplete forms may indicate that the individual is not qualified to participate in the City program. In such cases, the Vendor is overcharging the City. The Vendor should ensure that the staff working in the program requires completed forms from all the participants.

RECOMMENDATION

The Vendor should ensure that its staff require completed forms from all collection center participants.

EXECUTIVE RESPONSE FROM THE VENDOR

"Rinchem currently requests that all participants complete the forms when they arrive at the HHW collection center. Unfortunately, participants do not always comply with this request. We ask that the COA Environmental Health Department give us direction on what steps they want us to take if the participant refuses to complete, or does not complete the form entirely. Rinchem is suggesting an amendment to the contract to add a customer service representative to greet the customers and help them properly fill out the form."

5. THE VENDOR SHOULD KEEP CLEAR AND COMPLETE DOCUMENTATION ON ALL WORK DONE FOR THE CITY.

We reviewed a small sample of work order files, which supported invoices submitted and billed to the "Emergency Response and Waste Management" contract. None of the files we reviewed contained all the necessary supporting documentation. Missing documents included written estimates, notations for verbal estimates and proposal acceptances.

The contract states that complete records with respect to all matters covered by the agreement shall be kept and made available to the City for audits or inspections. The City may sometimes need the information regarding past services provided. The Vendor should ensure that all staff dealing with the City contract is familiar with the contract requirements.

RECOMMENDATION

The Vendor should keep clear, accurate and complete documentation on all work done for the City. The Vendor should ensure that all staff dealing with the City contract is familiar with the contract requirements. We recommend that the Vendor comply with the contract and keep supporting documents for all transactions involving the City and this contract.

EXECUTIVE RESPONSE FROM VENDOR

"All 'pre-planned' Rinchem projects have an internal requirement of a written cost estimate to be completed and accepted prior to performing the work. Emergency Response projects, however, are not typically preceded by a cost estimate due to the nature of the project.

"Rinchem could find no requirement in the contract statement of work for what would constitute complete documentation under this agreement.

"All Rinchem projects (including emergency responses) are required to have a completed field worksheet in the job file to better document work activities. Rinchem will monitor final project documentation on all COA projects. Rinchem has developed a COA Checklist that lists what documentation will be in each job file."

6. THE VENDOR SHOULD ENSURE IT DOES NOT BILL FOR DUPLICATE ENTRIES.

The Vendor sends the City a list of the participants to support the invoice billing each month. Participant information is entered into a data bank from the forms turned in by the participants. Clerks typically enter the information into the computer. Sometimes the clerk may inadvertently duplicate an entry. If the Vendor does not catch the error, it may sometimes charge more than once on an invoice for the same participant. The Vendor should carefully review the participant list before preparing the invoice, which is based on the number of participating citizens for the month.

Additionally, the Vendor should have a method for indicating that a customer has made multiple trips in a day, and is not a duplicate entry. We noted what appeared to be duplicate entries during our review of participant lists. The Vendor explained that participants sometimes make more than one trip in a day. Our review of the sample selection of "Collections Customer Entry" forms confirmed their assertion.

RECOMMENDATION

The Vendor should carefully review the participant lists before bill preparation and before submitting an invoice to the City. Additionally, the Vendor should make notations on the lists of multiple same-day visits by participants.

EXECUTIVE RESPONSE FROM VENDOR

"Rinchem's review of participant forms reveals that some participants have made multiple trips to the drop off center to bring in all of their HHW. These cases would not be duplicates but are additional drop offs and are subject to the participant fees. Rinchem will modify our form to better identify this activity."

7. THE VENDOR SHOULD MAINTAIN CURRENT INSURANCE COVERAGE.

The contract states that the contractor shall procure insurance covering all operations under the agreement. The Vendor should maintain the required insurance until the City makes the final payment for services covered by the contract. The certificate on file at the City indicated that one of the required policies was no longer current. The Vendor and the City should ensure that the required insurance coverage is current, and that the required documented proof is on file with the City.

RECOMMENDATION

The Vendor should ensure that all insurance policies related to the contract with the City remain current throughout the term of the contract, and that the required documents are on file at the City.

EXECUTIVE RESPONSE FROM VENDOR

"Rinchem verified that the COA is on our insured mailing list and that the current certificates were issued and sent. We maintain a copy of the certificates at our office in case the original mailings do not reach their destinations. Rinchem has directed our insurer to always fax a copy to COA upon renewal. Rinchem also confirmed that current insurance coverage has always been maintained during the term of the contract with the City."

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CONCLUSION

By implementing these recommendations, the Vendor will better fulfill its responsibilities for its contracts with the City.

We appreciate the assistance and cooperation of the Vendor's personnel during the audit.

	REVIEWED and APPROVED:
Systems Auditor	Senior Auditor
APPROVED:	APPROVED FOR PUBLICATION:
Debra D. Yoshimura, CPA, CIA Internal Audit Officer	Chairman, Audit Committee

AUDIT REPORT

OF

CONTRACT WITH

RINCHEM COMPANY, INC.

REPORT NO. 01-124



CITY OF ALBUQUERQUE OFFICE OF INTERNAL AUDIT